

CLEVELAND PUBLIC LIBRARY
BUSINESS
CORPORATION FILE

REXALL

DRUG

INC.

annual report



for the year ended December 31, 1954

directors

EARL E. ANDERSON	Montclair, N.J.
C. EARL COOPER	Los Angeles, Calif.
JUSTIN W. DART	Los Angeles, Calif.
SCOTT J. DOW, JR.	Los Angeles, Calif.
PAUL A. DRAPER	Boston, Mass.
JAMES KNOWLES, JR.	St. Louis, Mo.
F. THATCHER LANE	New Haven, Conn.
WALTER T. LILLIE	Los Angeles, Calif.
JAMES L. RICHARDS	Boston, Mass.
ADE' SCHUMACHER	New York, N.Y.
JAMES E. SHELTON	Los Angeles, Calif.
VERNON F. TAYLOR	San Antonio, Texas
THOMAS WOLFE	Los Angeles, Calif.

executive committee

JUSTIN W. DART, Chairman	Los Angeles, Calif.
EARL E. ANDERSON	Montclair, N.J.
VERNON F. TAYLOR	San Antonio, Texas

officers

JUSTIN W. DART	President
C. EARL COOPER	Vice-President
JAMES KNOWLES, JR.	Vice-President
WALTER T. LILLIE	Vice-President and Treasurer
RUDOLPH J. DREWS	Controller
HAROLD E. PRICE	Secretary

transfer agents—Guaranty Trust Company of New York, New York—State Street Trust Company, Boston—Bank of America National Trust & Savings Association, Los Angeles.

registrars—The Chase National Bank of the City of New York, New York—The National Shawmut Bank of Boston, Boston—California Trust Company, Los Angeles

independent auditors—Price Waterhouse & Co.

general headquarters—Rexall Square, 8480 Beverly Blvd., Los Angeles 54, Calif.

THE PRESIDENT'S LETTER

TO THE STOCKHOLDERS OF REXALL DRUG, INC.:

Sales and Earnings

Consolidated net earnings of your Company and its subsidiaries for the year ended December 31, 1954, were \$3,266,619, before special items, or \$0.93 per share on 3,501,120 shares, as compared with \$3,156,424, or \$0.90 per share on a similar number of shares in 1953.

Consolidated net sales for 1954 were \$176,138,112 as compared with \$189,243,671 in 1953.

The following simplified statement of earnings gives a comparison of the two years:

	1954	1953
We received from our customers for products sold . .	\$176,138,112	\$189,243,671
We spent or set aside for		
Purchase of materials, products and supplies		
and expenses of manufacturing, distribution		
and administration	121,444,116	133,204,429
Wages and salaries of employees	42,425,222	43,664,513
Local, State and Federal Taxes	6,004,370	6,151,636
Interest on borrowed money	847,269	934,831
Wear and tear on plant and equipment	2,150,516	2,131,838
Making total expenses	\$172,871,493	\$186,087,247
Leaving net earnings for the year before special items		
of which there were none in 1953	\$ 3,266,619	\$ 3,156,424



Rexall Trade-marked Products

Our Rexall Division distributes nationally-advertised Rexall trade-marked products to Rexall Franchise stores. These include independently-owned retail drug stores and Company-owned stores throughout the United States and Canada. The total number of Rexall Franchise stores in the United States and Canada was 11,580 at the end of 1954 compared with 11,500 at the end of 1953. The possible increase in the number of franchise stores is limited by existing exclusive contracts and the high standards required for the prospective retail druggist.

Earnings for 1954 in this Division were higher than in 1953. Total sales for the year were slightly lower than in 1953.

Rexall's national advertising continues to be dominant in its field. We will expand our advertising program in 1955.

The Canadian subsidiary, with headquarters in Toronto, Canada, showed improvement in 1954. In November, 1954, the 30 retail drug stores operated by Louis K. Liggett Company, Limited, were sold to G. Tamblyn, Ltd., a Toronto chain. The 102 Tamblyn drug stores in Canada are now Rexall Franchise stores.

We forecast continued improvement in profits for the Rexall divisions in both the United States and Canada in 1955.



Seamless Group

This group of manufacturing companies is composed of the following companies:

The Seamless Rubber Company, New Haven, Connecticut

The Absorbent Cotton Company, Valley Park, Missouri

United Cotton Products Company, Fall River, Massachusetts

Sales and profits in this group were somewhat lower in 1954 than in 1953, but the long range prospects for the group are good. We anticipate that 1955 results will show improvement over 1954.

The Seamless Rubber Company has major departments of rubber drug sundries, hospital rubber goods, rubber athletic goods, surgical dressings, rubber specialties and industrial tape. All of these departments have good growth potentials.

We intend to make substantial capital investments to expand this Seamless Group of companies.



Riker Laboratories

Both sales and profits of Riker Laboratories, our ethical manufacturing subsidiary, were good in 1954. We are steadily increasing the number of Riker representatives whose work is to supply doctors with information about Riker products and their uses.

Although we believe operations in 1955 will not produce the unusually favorable results of 1954 in sales and profits, the forecast for the ensuing year indicates very satisfactory results and return on the investment. The long term outlook for any ethical pharmaceutical business depends upon its ability to develop and market new and useful drug products. Research activities covering both improvement of present products and development of new ones is, therefore, a continuous activity at Riker. Our research staff is very much smaller than many of our competitors, however, it has demonstrated its ability to act rapidly and efficiently. We hope our scientists will be equally fortunate and effective in the future.

Operations of the English Riker company showed remarkable growth in 1954. The outlook for 1955 indicates further substantial progress in volume and profits. Our laboratory in Loughborough, opened last year, is the only laboratory in England currently extracting Rauwolfia. Our investment in Riker of England is very small in comparison with its profits. We have as yet returned no dividends from Riker of England to Rexall. All earnings have been retained for working capital purposes and for the further development of the Riker and Rexall divisions in England. Based on current prospects we expect to have earnings available for dividends to the parent company not later than 1956.

Our South African operations in both Riker and Rexall, although comparatively small, have continued to show satisfactory growth and profits.



Company-owned Retail Stores

The number of Company-owned Retail stores was reduced from 270 at the end of 1953 to 202 at December 31, 1954. This reduction of 68 stores included the closing of one store and the sale of 30 stores in Canada which was mentioned earlier in this letter, and the sale or closing of 39 stores in the United States. Two new stores were opened during 1954.

About three years ago your Company undertook an experiment in opening two combination drug and grocery stores in the Los Angeles area. Both were successful, but we were faced with large capital expenditures if we were to extend this type of merchandising. We decided that other fields were more attractive and both stores were sold at a profit during the year. The experience gained by the operating and merchandising organizations of your Company from this development was also valuable.

One of your Company's retail stores was located in an owned property in Providence, Rhode Island. It was severely damaged in one of the fall hurricanes of 1954. Since it would have required a substantial sum to rehabilitate the building and store, we decided to sell the property which was done at a good profit. The result is reflected in Special Items in the Statement of Earnings for 1954.

The reduction in operating units was the principal reason for the decrease in sales in the retail group. Profits, however, from this group were only slightly down in 1954 from 1953 results. Prospects for 1955 are favorable.

V.C.A. Laboratories

The operations of V.C.A. Laboratories resulted in a substantial loss for the year.

In the last half of 1954 production facilities of this company were moved from Newark, New Jersey, to St. Louis, Missouri, Rexall's principal drug manufacturing center.

The interests of the previous owners of V.C.A. Laboratories in future earnings of this company, under the terms of the contract of acquisition dated September 1, 1952, were purchased in early 1955. Mr. Morton Edell resigned as President of V.C.A. Laboratories.

The operating losses were charged against earnings as reported.

The costs of liquidation of the Newark laboratories and the move of the facilities to St. Louis, have been charged in the Special Item section as a non-recurring expense.

Substantial benefits have accrued as a result of the acquisition of V.C.A. which will be felt during 1955 and thereafter in the Rexall Product Division. Heretofore, Plenamins have not been manufactured by us. The Rexall plant in St. Louis is currently manufacturing both Rybutol and Super Plenamins by similar processes. Not only is there an additional manufacturing profit involved in St. Louis, but there is also a very substantial increase in profit in the Rexall vitamin department as a result of this new manufacturing process. These activities will contribute substantially to the gain in profits forecast for the Rexall division this year.

The elimination of the Newark laboratories, the drastic reduction in V.C.A. overhead, and the substantial cleanup of the Rybutol inventory position of the trade greatly improves the outlook for V.C.A. in 1955.

Other Manufacturing Group

This group includes the following companies:

Eastern Tablet Corporation, Albany, New York

Hudson Valley Pure Food Company, Highland, New York

Mansfield Chocolate Company, Mansfield, Massachusetts

During 1954, we sold the Franklin Hosiery Mills, Williamsport, Pennsylvania.

In February, 1955, we sold all of the assets of Mansfield Chocolate Company, except the production machinery. The machinery has been leased to the buyer with an option granted to the lessee to purchase this equipment after one year.

Your Company has been faced with two alternatives at Mansfield — either to spend a large additional amount of money to modernize this plant and enlarge its facilities or to get out of the candy and chocolate manufacturing business. We had approximately \$3,600,000 invested in this activity. We feel confident that we can get a better return on this capital applied in one of the other divisions of our business.

Long established brands of candy sold through our Rexall division will be made for us under contract for distribution to Rexall Franchise stores.

Although this transaction was completed in February, 1955, all losses foreseeable in connection with this sale have been provided for in 1954 in the Special Item section of the Statement of Earnings.

Both Eastern Tablet and Hudson Valley operated profitably in 1954.

Financial Position

Following is a comparative statement in summary form of principal balance sheet items:

	December 31	
	1954	1953
current assets		
Cash (including short term marketable securities)	\$12,463,262	\$12,592,648
Receivables — less reserve	14,346,026	15,130,204
Inventories of merchandise, partly finished stocks, materials and supplies	38,245,596	37,225,400
Total Current Assets	\$65,054,884	\$64,948,252
current liabilities		
Accounts payable	\$ 7,850,705	\$ 8,523,646
Accrued wages, salaries and taxes thereon	3,477,569	3,168,671
Other accrued expenses	3,474,983	2,589,761
Current instalments of long term indebtedness	1,467,863	1,748,954
Estimated Federal and Canadian taxes on income	2,532,062	4,088,982
Total Current Liabilities	\$18,803,182	\$20,120,014
Net working capital	\$46,251,702	\$44,828,238
Investments, advances and noncurrent receivables	3,349,241	3,336,215
Property accounts	17,869,368	20,439,758
Prepaid expenses and deferred charges	594,012	637,413
Goodwill and trademarks	1	1
Total	\$68,064,324	\$69,241,625
Less — Real estate obligations	927,478	1,355,635
Other long term indebtedness	21,775,000	23,237,500
Stockholders' equity	\$45,361,846	\$44,648,490

Net working capital (current assets less current liabilities) amounted to \$46,251,702 compared with \$44,828,238 at the end of 1953. The ratio of current assets to current liabilities was 3.45 to 1.

Inventories increased slightly in the year. Following is a comparison of the approximate composition of inventories for the past two years:

	1954	1953
Raw materials	\$ 5,400,000	\$ 5,300,000
Goods in process	2,500,000	2,800,000
Finished goods —		
Retail companies	14,100,000	16,400,000
Other companies	15,800,000	12,200,000
Supplies	400,000	500,000
	\$38,200,000	\$37,200,000

Capital expenditures again in 1954 were less than the aggregate provisions for depreciation and amortization.

We are at present negotiating the rearrangement of a major part of our funded debt, most of which is due in 1965. It is expected this will result in an extension of maturity for a major portion of this debt and also substantially reduce the annual sinking fund requirements.

Stockholders' equity, as shown in the above comparative balance sheet, increased from \$12.75 a share at the end of 1953 to \$12.98 a share at December 31, 1954.

Dividends In the last two quarters of 1954, your Board of Directors declared regular quarterly dividends of ten cents per share, or at the annual rate of forty cents a share. At the January, 1955, meeting your Board of Directors, on the basis of the improved outlook for your Company, declared a regular quarterly dividend of twelve and one-half cents per share.

Profit Sharing Retirement Trust Your Company is submitting in the current Proxy Statement a proposal to the Stockholders for the adoption of a Rexall Profit Sharing Retirement Trust. The Plan, which is fully explained in the Proxy Statement, is a moderate one and will eventually replace our present discretionary pension arrangement for retiring employees. It should be especially noted that this is truly a "profit sharing" retirement plan since contributions depend solely upon earnings.

No company can be in a competitive position to acquire manpower without an adequate retirement plan. Your directors have long felt the need for the inauguration of some type of retirement provisions but have awaited improvement in operating results. We solicit support and approval of all Stockholders on this proposal.

Special Items Results of transactions which do not represent normal operations for the year 1954 are shown in the "Special Items" section of the Statement of Earnings and Earnings Retained and Used in the Business in the same manner as in our 1952 statement. There were no Special Items in 1953.

These 1954 "Special Items" include provision in the net amount of \$684,065 after taxes, for the excess of losses over profits resulting from the transactions involving the sales of Louis K. Liggett Company, Limited, Franklin Hosiery Mills, Mansfield Chocolate Company, the Providence property, the liquidation of V. C. A. Laboratories in Newark and the expenses incident to the transfer of V. C. A. operations to St. Louis. All of these items have been described briefly in preceding sections of this letter.

Under the provisions of the 1954 Federal Internal Revenue Code we are permitted to accrue and deduct from earnings in 1954 certain expenses, such as vacation pay, which under the methods of accounting followed in previous years would have been recorded in 1955.

This accounting and tax procedure resulted in a doubling of the items shown for these expenses in 1954. Therefore the amount of the extra charges, \$1,065,188, net after taxes, has been shown in the Special Item section.

Objectives In order to improve the return on capital invested, your Company is continuing to make important and fundamental changes in its activities.

It is our objective to further develop our manufacturing facilities.

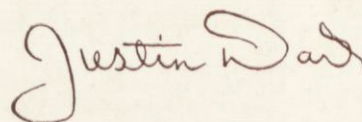
We will endeavor in every way possible to expand Riker, the ethical division of our business.

We will continue to improve the service and manufacturing facilities in the Rexall division.

Forecast We forecast an increase in earnings for your Company in 1955.

We urge you to exercise your voting rights and to mail your proxy as speedily as possible in case you cannot be present in person at the Stockholders' Meeting which will be held in Los Angeles, California, on April 26, 1955.

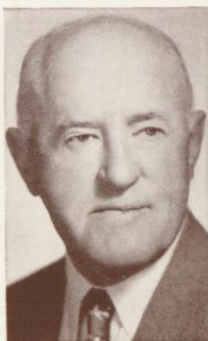
Respectfully submitted,



March 11, 1955

JUSTIN DART, President

In Memoriam



Joseph A. Galvin (1883-1954), Chairman of the Board of Directors, died on May 10, 1954, at the age of 71, in Los Angeles, California.

He began his services as a bookkeeper with the original United Drug Company in 1906. His progress with Rexall was uninterrupted as he successively was promoted to auditor in 1909, assistant treasurer in 1916, treasurer in 1921, vice-president in 1932 and executive vice-president in 1940. He succeeded the founder of the Company, Louis K. Liggett, to the presidency in 1941. In 1946 he assumed the position which he held at his death.

His life was dedicated to the operation and growth of the Company. He is greatly missed by all of his business associates.

James Lorin Richards (1858-1955), Director of the Company, passed away at his home in Newtonville, Massachusetts, on January 3, 1955, just five days before his ninety-seventh birthday. A member of the Rexall directorate for 33 years, he was Chairman of the Board of the Boston Consolidated Gas Company. He was active in business life until last September and at one time he was a director simultaneously in 33 firms.

Mr. Richards' life and business career were a shining example of the opportunity available under the American system.

INDEPENDENT AUDITORS REPORT

PRICE WATERHOUSE & CO.

530 WEST SIXTH STREET

LOS ANGELES 14

February 22 1955

To the Board of Directors of
Rexall Drug, Inc.

In our opinion, the accompanying statements present fairly the financial position of Rexall Drug, Inc. and its consolidated subsidiaries at December 31 1954 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent (except for the change, which we approve, in the method of accruing vacation pay and certain other expenses as explained on page 6 of the president's letter) with that of the preceding year. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

REXALL DRUG, INC.

And Its United States and Canadian Subsidiaries

consolidated statement of earnings and earnings retained and used in the business

	<u>1954</u>	<u>1953</u>
Sales, less returns, allowances and discounts	\$176,138,112	\$189,243,671
Cost of sales, selling, distribution, promotional and administrative expenses, etc.	(166,573,708)	(179,720,578)
Depreciation	(2,150,516)	(2,131,838)
Interest on indebtedness	(847,269)	(934,831)
Provision for Federal and Canadian taxes on income	(3,300,000)	(3,300,000)
NET EARNINGS FOR YEAR	\$ 3,266,619	\$ 3,156,424
Special items (see page 6 of President's Letter):		
Vacation pay and certain other expenses, less \$898,000 applicable income taxes	(1,065,188)	
Provision for excess of estimated losses over estimated gains, from disposals of certain subsidiaries, divisions and properties, and for expenses relating to transfer of V.C.A. plant to St. Louis, less \$880,000 applicable income taxes	(684,065)	
Net earnings for year and special items	\$ 1,517,366	\$ 3,156,424
Earnings retained and used in the business at beginning of year	25,254,021	22,797,821
Dividends paid — 20¢ per share in each year less \$597 in 1954 on stock held by a subsidiary	(699,627)	(700,224)
Earnings retained and used in the business at close of year	<u>\$ 26,071,760</u>	<u>\$ 25,254,021</u>

REXALL DRUG, INC.* AND ITS UNITED

CONSOLIDATED BALANCE SHEETS

assets

	1954	1953
<i>current assets</i>		
Cash in banks and on hand	\$12,460,762	\$12,176,245
Marketable securities, at cost	2,500	416,403
Accounts and notes receivable, less reserves —		
Customers	12,591,693	13,335,714
Others	1,754,333	1,794,490
Inventories of merchandise, partly finished stocks, materials and supplies — at cost or market whichever lower	38,245,596	37,225,400
Total Current Assets	\$65,054,884	\$64,948,252
<i>investments, advances and noncurrent receivables</i>		
Investments in and advances to foreign subsidiaries not consolidated (net assets of these subsidiaries were \$1,097,000 at December 31, 1954 and \$834,000 at December 31, 1953)	\$ 473,885	\$ 334,168
Miscellaneous investments, at cost less reserve	690,944	1,374,574
Noncurrent receivables, advances and deposits	2,184,412	1,627,473
	\$ 3,349,241	\$ 3,336,215
<i>property accounts, at cost:</i>		
Land, buildings and building fixtures	\$11,247,521	\$11,748,942
Machinery and equipment	13,935,014	14,123,241
Store fixtures, leaseholds and improvements	13,136,154	15,620,003
	\$38,318,689	\$41,492,186
Less — Accumulated depreciation	20,449,321	21,052,428
	\$17,869,368	\$20,439,758
<i>deferred charges</i>		
Insurance, taxes, rent and other prepaid items	\$ 553,689	\$ 588,652
Unamortized discount and expense on long term indebtedness	40,323	48,761
	\$ 594,012	\$ 637,413
<i>goodwill and trademarks</i>		
	\$ 1	\$ 1
	\$86,867,506	\$89,361,639

No amounts have been included in the financial statements in respect of claims seeking partial recovery of Federal excess profits taxes. The claims filed in 1953 are based on a contention that the excess profits credits should be increased for the years 1940 to 1945, inclusive.

*Incorporated in Delaware

STATES AND CANADIAN SUBSIDIARIES

DECEMBER 31, 1954 AND DECEMBER 31, 1953

liabilities

	1954	1953
<i>current liabilities</i>		
Accounts payable	\$ 7,850,705	\$ 8,523,646
Accrued wages, salaries and taxes thereon	3,477,569	3,168,671
Other accrued expenses	3,474,983	2,589,761
Current instalments of long term indebtedness	1,467,863	1,748,954
Estimated Federal and Canadian taxes on income for current and prior years	2,532,062	4,088,982
Total Current Liabilities	<u>\$18,803,182</u>	<u>\$20,120,014</u>
<i>long term indebtedness, less current instalments shown above:</i>		
Bank loans		\$ 37,500
Sinking fund debentures, 3¾% due 1961, authorized and issued \$2,500,000	\$ 1,100,000	1,300,000
Sinking fund debentures, 3% due 1965, authorized and issued \$25,200,000	20,675,000	21,900,000
Real estate obligations	927,478	1,355,635
	<u>\$22,702,478</u>	<u>\$24,593,135</u>
<i>stockholders' equity</i>		
Capital stock of Rexall Drug, Inc. Authorized — 5,000,000 shares, par value \$2.50 each Issued — 3,501,120 shares	\$ 8,752,800	\$ 8,752,800
Other paid in capital (increased in 1954 by \$4,871 gain on sale of stock to executives and decreased by \$61,247 on account of sale of subsidiary)	10,585,293	10,641,669
Earnings retained and used in the business, per accompanying statement (under indentures securing long term indebtedness, \$1,000,000 of the retained earnings at December 31, 1954 is not restricted as to payment of dividends)	26,071,760	25,254,021
	<u>\$45,409,853</u>	<u>\$44,648,490</u>
Less — Cost of capital stock of Rexall Drug, Inc., acquired and held by a subsidiary — 6,822 shares in 1954	48,007	
Total stockholders' equity	<u>\$45,361,846</u>	<u>\$44,648,490</u>
	<u>\$86,867,506</u>	<u>\$89,361,639</u>

At December 31, 1954 the companies were committed under some 160 leases expiring more than three years after that date with minimum annual rentals of approximately \$3,000,000. Less than 3 per cent of this amount relates to leases expiring more than 25 years after December 31, 1954.

REXALL DRUG, INC.

CONSOLIDATED STATISTICAL SUMMARY

*financial operations**

	1954	1953	1952	1951	1950
Net sales	\$176,138	\$189,244	\$178,293	\$164,278	\$153,643
Earnings before Federal and Canadian income taxes and special items	\$ 6,567	\$ 6,456	\$ 3,960	\$ 3,917	\$ 3,699
Federal and Canadian income taxes	\$ 3,300	\$ 3,300	\$ 2,000	\$ 2,000	\$ 1,675
Net earnings	\$ 3,267	\$ 3,156	\$ 1,960	\$ 1,917	\$ 2,024
Earnings per share of common stock	93¢	90¢	56¢	55¢	58¢

*financial position**

	1954	1953	1952	1951	1950
Cash and marketable securities	\$ 12,463	\$ 12,593	\$ 10,012	\$ 13,446	\$ 8,556
Accounts receivable	14,346	15,130	12,849	10,278	12,153
Inventories	38,246	37,225	38,247	36,274	39,433
Current Assets	\$ 65,055	\$ 64,948	\$ 61,108	\$ 59,998	\$ 60,142
Less: Current Liabilities	18,803	20,120	18,085	17,688	17,469
Working Capital	\$ 46,252	\$ 44,828	\$ 43,023	\$ 42,310	\$ 42,673
Property, machinery and equipment (net)	17,869	20,440	21,224	21,752	20,499
Investments, advances, prepaid expenses, etc.	3,943	3,974	4,084	4,195	4,182
Less: Real estate obligations	927	1,356	1,216	1,242	353
Other long term indebtedness	21,775	23,238	24,928	26,378	27,785
Reserves	none	none	none	none	151
Stockholders' equity	\$ 45,362	\$ 44,648	\$ 42,187	\$ 40,637	\$ 39,065
Stockholders' equity — amount per share	\$ 12.98	\$ 12.75	\$ 12.05	\$ 11.67	\$ 11.22
Number of stockholders	14,688	15,435	16,225	17,033	17,582

The story behind your NEW Rexall Super Plenamins



1954 saw the final development and introduction of Rexall Super Plenamins, the most advanced multiple vitamin product in its field. This ended a long-range plan to replace the previous mainstay in Rexall's vitamin list — twin-capsule Plenamins.

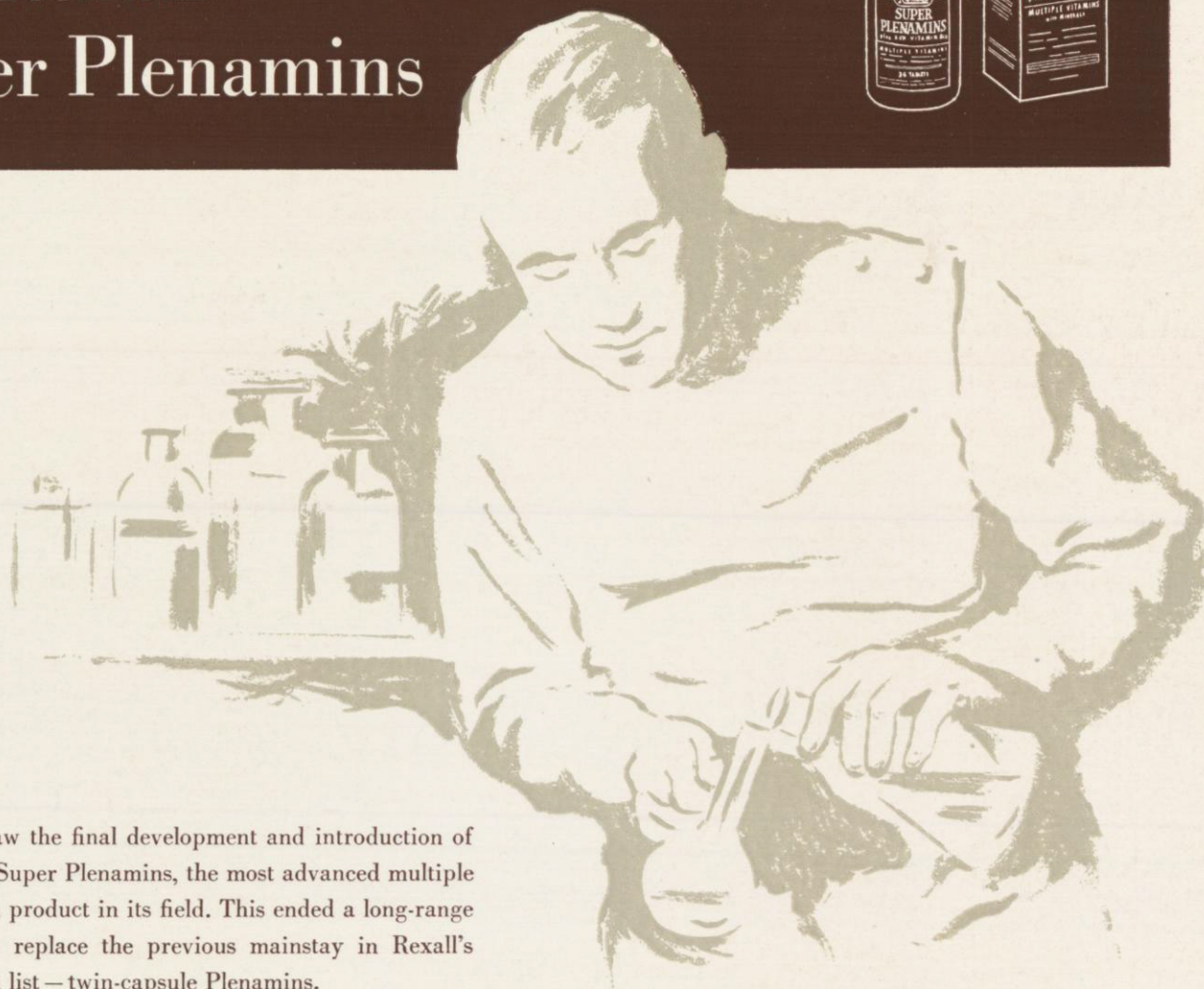
The objective was to add many nutritional elements to the original formula and produce the new product in a modern, easy-to-swallow, one-tablet form. This posed a major problem for Rexall's Research and Development Department. To combine the many non-compatible elements into one tablet, an intricate, exclusive production technique of thirty-one separate steps was developed. This process guarantees the potency of the eleven vitamins and twelve minerals until each single tablet is dissolved within the body.

After an exhaustive, nine-month market-testing program in thirty San Diego Rexall Drug Stores, the

new product was introduced across the country with a complete national and local advertising campaign.

To date the sales success of Rexall Super Plenamins far exceeds the popularity of its predecessor.

The story of Rexall Super Plenamins is indicative of your company's future program which includes the development of new products as well as the improvement of existing products.



1954

